

Message Text

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15

ACTION EA-10

INFO OCT-01 ISO-00 H-01 SP-02 AID-05 EB-07 NSC-05 RSC-01

CIEP-01 TRSE-00 SS-15 STR-01 OMB-01 CEA-01 L-02 TAR-01

AGR-05 CIAE-00 COME-00 INR-07 LAB-04 NSAE-00 FRB-03

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P 280808Z JAN 75

FM AMEMBASSY SEOUL

TO SECSTATE WASHDC PRIORITY 8105

INFO AMEMBASSY TAIPEI PRIORITY

C O N F I D E N T I A L SEOUL 0586

PASS USAD/FAS/WASHDC FOR D. HUME/DUDLEY WILLIAMS

TAIPEI FOR LESTER EDMOND

E.O. 11652: GDS

TAGS: EAGR EFIN KS

SUBJECT: COTTON CONTRACT PROBLEM

REF: A STATE 17995 B SEOUL 348

SUMMARY: DESPITE NUMEROUS REPRESENTATIONS AND ASSURANCE GIVEN ASST. SECRETARY YEUTTER BY DEPUTY PRIME MINISTER, ONLY ABOUT HALF OF PROMISED JANUARY CLEAN-UP OF DOLS 56 MILLION IN OVERDUE COTTON CONTRACTS WILL BE UNDERWAY BY JAN 31. MILLS ARE BALKING AT OPENING L/C'S WHILE SEEKING RELIEF FOR EXCESS COSTS. LATEST GOVERNMENT THINKING IS TO RELAX INTEREST CEILING ON SHIPPERS USANCE CREDITS AND TO PRESS MILLS TO USE THESE AND MATCHING CCC CREDITS. REQUEST INFO ON AVAILABILITY AND TERMS COTTON USANCE CREDITS. END SUMMARY.

1. DURING CALL ON DEPUTY PRIME MINISTER NAM, DUCK WOO ON JAN 24, DEPUTY ASST. SECRETARY OF STATE
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FOR EA LESTER EDMOND STRESSED SERIOUSNESS OF COTTON

CONTRACT PROBLEM, INCLUDING WHILE HOUSE AND CONGRESSIONAL ASPECTS. NAM RESPONDED THAT KOREA WOULD HONOR ITS COMMITMENTS, SAID MATTER BEING ACTIVELY PURSUED AND ALLUDED IN VERY GENERAL TERMS TO FIVE-YEAR LOAN FINANCING WHICH NOW SEEMED TO OFFER GOOD SOLUTION. HE INDICATED COMMITMENT GIVEN JAN 15 TO ASST. SECRETARY YEUTTER (REF B) RE CLEAN-UP OF OVERDUE CONTRACTS FOR 176,000 BALES (EQUAL TO DOLS 56 MILLION AT AVERAGE COST OF DOLS 318) WOULD BE MET BY JAN 31. IT WAS AGREED THAT STAFFS WOULD REVIEW SITUATION JAN 27. NAM THEN REMINDED EDMOND THAT KOREA EXPECTED THE US TO HONOR ITS COMMITMENT RE PL 480.

2. STRONG NEGATIVE POSITION OF AMERICAN SHIPPERS RE FIVE-YAKR NOTE FINANCING OF PRICE DIFFERENCE, REPORTED REF (A), WAS CONVEYED EARLY JAN 27 TO LEE, SUN KI, EPB ASST. MINISTER HANDLING PROBLE, AND NOTHING MORE HAS BEEN HEARD OF THAT PROPOSAL. MEETING LATER WITH LEE AND INDUSTRY ASSOCIATION (SWANK) REPS INDICATED FOLLOWING STATE OF PLAY RE PROMISED DOLS 56 MILLION JANUARY CLEAN-UP.

3. ACCORDING TO SWAK, USANCE CREDITS UTILIZED AS OF JAN 28 STAND AT DOLS 13.1 MILLION WITH EXPECTATION FIGURE MAY REACH DOLS 17 MILLION BY END JANUARY. SWAK HAS ALLOCATED FIRST DOLS 10 MILLION OF SECOND DOLS 50 MILLION CCC CREDIT LINE. MINISTRY OF FINANCE AND EPB REPORTEDLY APPROVED JAN 27. THUS MAXIMUM OF DOLS 27 MILLION CAN BE VIEWED AS PROBABLY ARRANGED OR IN PROCESS BY JAN 31.

4. WHEN PRESSED FOR EXPLANATION OF SHORTFALL AND PLANS FOR FUTURE, LEE STRESSED FINANCIAL DIFFICULTIES OF MILLS AND "LOSSES" THEY FEEL THEY WILL INCUR IF FORCED TO PAY FULL CONTRACT PRICES. HE SAID ROKG ABILITY TO HELP OUT WAS SHARPLY LIMITED BY ITS DIFFICULT FOREIGN EXCHANGE POSITION, ALTHOUGH IT REMAINED DETERMINED TO SEE PROBLEM SOLVED.

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5. DISCUSSION THEN TURNED TO MATCHING PLAN FOR SECOND DOLS 50 MILLION CCC CREDIT. POOR KOREAN PERFORMANCE IN OPENING L/C'S WAS ATTRIBUTED IN PART TO ROKG RULE LIMITING USANCE INTEREST RATE TO EURODOLLAR (LIBO) RATE PLUS 2 PERCENT MARGIN, WHEREAS US SHIPPERS USANCE FOR KOREAN MILLS REPORTEDLY REQUIRES 4-4.5 PERCENT MARGIN. LEE SAID ROKG WOULD BE WILLING LIFT CEILING TO MOVE

CONTRACTS BUT REQUESTED INFO ON CURRENT AVAILABILITY
AND TERMS OF US COTTON USANCE CREDITS. PLEASE
PROVIDE PRIORITY.

6. LEE INDICATED THAT ROKG WOULD PRESSURE MILLS
TO OPEN L/C'S IF CREDITS AVAILABLE, AND THAT THIS
PRESSURE PLUS USE OF MATCHING CCC CREDITS (REMAINING
DOLS 40 MILLION PLUS POSSIBLE NEW) WOULD SOLVE
OVERDUE CONTRACT PROBLEM. LEE WAS REMINDED THAT
ANOTHER DOLS 84 MILLION IN CONTRACTS WILL BE OVER-
DUE AT END OF JANUARY AND THAT PROBLEM REQUIRES
URGENT AND DEFINITE SOLUTION.

7. COMMENT: LARGE MILLS, E.G., DAINANG, ARE
OBVIOUSLY TRYING TO TAKE ADVANTAGE OF US PRESSURE
ON ROKG TO SECURE RELIEF ON "EXCESS" COSTS, EITHER
DIRECTLY FROM ROKG OR INDIRECTLY THROUGH NEGOTIATED
SOLUTION, E.G., FIVE-YEAR NOTE PROPOSAL. ROKG
WILL HAVE TO PROVIDE QUICKLY SUFFICIENT PRESSURE
AND/OR RELIEF TO GET L/C'S MOVING. WE WILL CONTINUE
TO USE EVERY OPPORTUNITY TO PRESS KOREANS ON THIS.
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